

United States Senate
Committee on Finance



Sen. Chuck Grassley • Iowa
Ranking Member

<http://finance.senate.gov>
Press_Office@finance-rep.senate.gov

Contact: Jill Kozeny, 202/224-1308
Jill Gerber, 202/224-6522

MEMORANDUM

To: Reporters and Editors
Fr: Jill Gerber for Sen. Grassley, 202/224-6522
Re: AMT revenue
Da: Friday, Feb. 20, 2009

The New York Times reported that President Obama's forthcoming budget will not rely on revenue from the Alternative Minimum Tax (AMT). Since Congress has "patched" the AMT each year over the last several years, Sen. Chuck Grassley has argued that the revenue shouldn't count. Grassley, the ranking member and former chairman of the Committee on Finance, made the following comment on The New York Times report.

"It's good to see the White House and more and more Democrats finally recognize AMT revenue as the phony revenue source it is. I've sounded the drumbeat since 2001. Some Democrats agreed early on, but the House Democratic leaders held out last year as long as they could. It will be interesting to see whether they agree with the new Democratic president. I suppose the same words might sound better to them from him than me."

The New York Times, February 20, 2009

Obama Bans Gimmicks, and Deficit Will Rise

By JACKIE CALMES WASHINGTON — For his first annual budget next week, President Obama has banned four accounting gimmicks that President George W. Bush used to make deficit projections look smaller. The price of more honest bookkeeping: A budget that is \$2.7 trillion deeper in the red over the next decade than it would otherwise appear, according to administration officials.

The new accounting involves spending on the wars in Iraq and Afghanistan, Medicare reimbursements to physicians and the cost of disaster responses.

But the biggest adjustment will deal with revenues from the alternative minimum tax, a parallel tax system enacted in 1969 to prevent the wealthy from using tax shelters to avoid paying any income tax.

Even with bigger deficit projections, the Obama administration will put the country on “a sustainable fiscal course” by the end of Mr. Obama’s term, Peter R. Orszag, the director of the Office of Management and Budget, said Thursday in an interview. Mr. Orszag did not provide details of how the administration would reduce a deficit expected to reach at least \$1.5 trillion this year.

Mr. Obama’s banishment of the gimmicks, which have been widely criticized, is in keeping with his promise to run a more transparent government.

Fiscal sleight of hand has long been a staple of federal budgets, giving rise to phrases like “rosy scenario” and “magic asterisks.”

The \$2.7 trillion in additional deficit spending, Mr. Orszag said, is “a huge amount of money that would just be kind of a magic asterisk in previous budgets.”

“The president prefers to tell the truth,” he said, “rather than make the numbers look better by pretending.”

Recent presidents and Congresses were complicit in the ploy involving the alternative minimum tax. While that tax was intended to hit the wealthiest taxpayers, it was not indexed for inflation. That fact and the tax breaks of the Bush years have meant that it could affect millions of middle-class taxpayers.

If they paid it, the government would get billions of dollars more in tax revenues, which is what past budgets have projected. But it would also probably mean a taxpayer revolt. So each year the White House and Congress agree to “patch” the alternative tax for inflation, and the extra revenues never materialize.

Nearly \$70 billion of the just-enacted \$787 billion economic recovery plan reflected the bookkeeping cost of adjusting the alternative tax for a year.

The White House budget office calculates that over the next decade, the tax would add \$1.2 trillion in revenues. But Mr. Obama is not counting those revenues, and he is adding \$218 billion to the 10-year deficit projections to reflect the added interest the government would pay for its extra debt.

As for war costs, Mr. Bush included little or none in his annual military budgets, instead routinely asking Congress for supplemental appropriations during the year. Mr. Obama will include cost projections for every year through the 2019 fiscal year to cover “overseas military contingencies” — nearly \$500 billion over 10 years.

For Medicare, Mr. Bush routinely budgeted less than actual costs for payments to physicians, although he and Congress regularly waived a law mandating the lower reimbursements for fear that doctors would quit serving beneficiaries in protest.

Mr. Obama will budget \$401 billion over 10 years for higher costs and interest on the debt.

He will also budget \$273 billion in that period for natural disasters. Every year the government pays billions for disaster relief, but presidents and lawmakers have long ignored budget reformers' calls for a contingency account to reflect that certainty.